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ABSTRACT

Achieving a state education finance program that is fair to students, taxpayers, teachers, and school districts is complicated by varying student needs and different property tax rates and school expenses among districts. Attempts at equitable allocation of state aid funds and other educational resources should be guided by the principles of treating everyone the same or treating individuals within groups with similar characteristics the same and providing equal opportunities to all. The equity of present programs should be assessed by measuring a district's size, per-pupil spending, tax rate, teacher salaries, relationship between wealth and spending, proportion of students with special needs, size of schools, and special problems. State assessment of revenue needs should then be adjusted for such district characteristics as wealth, tax rate, size, enrollment trends, price of education, teacher qualifications, concentration of educationally disadvantaged students, use of special programs, grade level of pupils, and possible federal grant support. (MJL)

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25. School Finance Equity

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25. School Finance Equity

The Issue

How can states be fair to students, taxpayers, teachers and school districts in their education finance programs? Equity is difficult to achieve because there is no single solution that applies across states and districts. The nation's 15,600 local districts provide 43% of the funds for public schools. Nine out of 10 of the local dollars for education come from property taxes; different districts have different taxable property wealth and use different tax rates. Additionally, student characteristics and needs differ from district to district. School size, prices for resources and teacher salaries are not the same across districts.

Providing School Finance Equity

No two states approach equity in exactly the same way. Policy makers in each state decide how they will assure equity by answering three questions.

- Who is to be treated equitably?

  Typically, two groups are considered: students and taxpayers. Obviously, students should have an equal chance for an education; it shapes their personal futures

and the nation benefits from a well-educated populace. Taxpayers need to be treated fairly because they pay the bill for education. Teachers are also candidates for equitable treatment.

- What should be distributed equitably?

State aid funds, most easily controlled by legislators, are most often targeted for equitable distribution among students. Some states focus on distributing resources, i.e., teachers and materials, equitably; and a few base their allotment of funds on the need for improved student achievement. Equitable tax burdens for citizens are important in most states. If teacher salaries are a concern, states find ways to distribute salaries or total compensation packages more fairly.

- What principles should guide approaches to equity?

The simplest equity principle is that everyone should be treated the same. For students, this means that an equal amount of money is allocated for each one. For taxpayers, this means that tax burdens should be the same.

A second principle calls for groups with the same characteristics, i.e. the handicapped, to be treated essentially alike, but different from students without handicaps. Special groups like these are often more expensive to educate, and this principle allows appropriately higher resources for them. For taxpayers, this principle suggests that tax burdens can increase as incomes increase.

Equal opportunity is the third principle. For students, this means that the money spent for their education cannot be tied to district taxable wealth, which varies within states. Thus, states must find ways to even out per-pupil spending across districts. For taxpayers, equal opportunity means that districts are offered the same chance to raise funds, even though taxable wealth across districts is not uniform. Taxpayers in different districts might not take advantage of the equal opportunity to the same extent -- they might choose different tax rates.

Measuring School Finance Equity

Before state policy makers act on their answers to the questions above, they need to look at how well they are achieving equity with their present programs. This usually

means assessing the school finance system with a statistical measure of per-pupil spending, tax rates, teacher salaries, the relationship between district wealth and spending, and other targets for equity. This process should consider factors such as the varying sizes of school districts or the proportions of students with special needs that influence school district expenditures.

Absolute equity is hard to come by, because certain school districts -- very large or very small, very wealthy or very poor, very isolated or very dense, have special problems. Equity must be balanced against providing enough funding and assuring the local control consistent with state political practices.

Adjusting State Aid Systems for District Differences

Per-pupil expenses are seldom the same across school districts within states because the amount of money needed for the same tasks by individual districts varies. Because of this, school finance systems aimed at equity have become more complex over the past few years. The systems have been adjusted to recognize and treat fairly the legitimate revenue needs in each school district. Essentially, the revenue needs of a school district are defined by the following characteristics of districts and students.

- Wealth. Most states' school aid distribution formula is sensitive to district property wealth alone. In the most popular foundation program, a base level for revenue is set, with the state providing the difference between that level and a lower amount each district raises at a uniform tax rate. In a few states, property wealth and income are used to measure school district wealth. For example, in Connecticut the ratio of the median family income in a district to the median family income of the state is used to adjust the relative property wealth of each district.

- Tax rate. Some states link school district support to district tax rates. A district power-equalizing system (guaranteed tax base or guaranteed yield) assures that every district generates the same revenue for each student at each mill of tax effort. It does this by allowing every district to tax itself as if it had a standard property tax base. In this way, districts making larger tax efforts will generate more state aid.

- Size. School district enrollments range from fewer than 10 students to several hundred thousand. Very small or very large districts often have higher per-pupil

expenditures than those in the middle. Some state allocation formulas allow for these deviations, or for differences in the sizes of individual schools. Oklahoma's formula uses a mathematical equation to increase per-pupil support in districts with less than 500 pupils; in Wyoming pupil-teacher ratios that determine foundation costs differ according to the size of individual schools.

- Declining enrollment. Because of commitments to teacher contracts and other long-term obligations, school districts cannot reduce their expenses as fast as their students disappear. Some state aid formulas soften this economic shock by averaging pupil counts over several years for aid distribution.

Price of education. The price paid by different districts for the same resources varies. Recent studies have resulted in new ways to compensate for these price differences. Today, four states are using a price mechanism in their school aid formulas. Florida uses a cost-of-living adjustment, Alaska considers price variations due to geographic isolation, and Missouri and Ohio use a salary price adjustment.

- Teacher qualifications. Teacher salaries, most often determined by the teacher's educational attainment and years of teaching experience, are a major education expense. Teacher qualifications cannot be controlled by districts when the supply of teachers does not match the needs. As a result, the average salary of teachers varies among districts. Some states adjust their aid formulas to allow for differently qualified teachers. Texas, for example, uses a state minimum salary schedule, which is sensitive to the training and experience of each teacher.

- Concentrations of educationally disadvantaged students. When districts have large numbers of these students, the student body overall has higher general education needs. States sometimes respond by adding a fixed amount or funds that increase with the proportion of disadvantaged students.

- Special, high-cost programs. When students receive high-cost services such as those for the handicapped, the gifted and talented, or vocational, compensatory or bilingual programs, state aid systems provide more money than they allocate for regular students. In some categorical approaches, states offer fixed sums or proportional shares of the excess costs of these programs. Some state foundation formulas "weight" students with

special needs (if a regular student counts as 1, a special student might count as 1.4) or adjust the pupil-teacher ratio to add money for high-cost programs.

- o Grade level. Some state policy makers decide to concentrate resources at certain points in the education continuum. They may allocate more money for elementary school students to concentrate resources at the beginning of the education process. Or, recognizing that high school students are more expensive to educate, they may increase funding for secondary schools.

Federal Support Affects School Finance Equity

Most studies of school finance equity exclude federal funds because in the past these have been targeted to specific student populations for use under specific financial regulations. But increasingly, federal education support is offered as more flexible block grants. Policy makers need to be alert to possible resource disparities as these grants are distributed within states. P.L. 874 (Impact Aid) is given directly to school districts as a general resource. In some states, part or all of these funds are considered local revenue if the state's school finance system passes a federal test for equity.

What To Read

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